

**REPORT OF**  
**MISSOURI PUBLIC ENTITY RISK**  
**MANAGEMENT FUND**  
**DECEMBER 31, 2005 and 2004**



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

JEFFERSON CITY  
COLUMBIA  
MEXICO

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Missouri Public Entity Risk Management Fund

We have audited the accompanying balance sheets of the Missouri Public Entity Risk Management Fund (MOPERM) as of December 31, 2005 and 2004, and the related statements of operations and changes in retro return reserve and cash flows for the years then ended. These financial statements are the responsibility of MOPERM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Public Entity Risk Management Fund as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis and the supplemental schedule are presented for additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

*Williams - Keepers LLC*

February 2, 2006

Except for Note 5 as to which the  
date is February 27, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Missouri Public Entity Risk Management Fund (MOPERM) offers this narrative overview and analysis of the financial activities of MOPERM for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

## **Fund Accounting**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is not considered to be a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. MOPERM's funds are considered proprietary funds.

*Proprietary funds.* Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers of the provision of those goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: Enterprise Fund. MOPERM's purpose is to provide liability and property insurance coverage to participating public entities, their officials and employees.

## **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to MOPERM's financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The financial statements, in addition to management's discussion and analysis, are comprised of the balance sheet; the statement of operations and changes in retro return reserve; the statement of cash flows and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The balance sheet presents MOPERM's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as retro return reserve. The retro return reserve of MOPERM reflect the resources available as of the end of the fiscal year to pay claims of participants when due. Over time, increases and decreases in retro return reserve measure whether MOPERM's financial position is improving or deteriorating.

The statement of operations and changes in retro return reserve presents information detailing the revenues and expenses that resulted in the change in retro return reserve that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will

not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by fiscal year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the balance sheet. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statement of operations and changes in retro return reserve.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past ten years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

### Financial Analysis

The following tables present the summarized financial position and results of operations for the fiscal years ended December 31, 2005 and 2004. Additional details are available in the accompanying financial statements.

	2005	2004	Increase (Decrease)
<b>ASSETS</b>			
Cash and investments	\$ 57,489,854	\$ 48,887,062	\$ 8,602,792
Receivables	3,027,486	2,009,540	1,017,946
Capital assets	1,436,679	415,543	1,021,136
Other	1,309	5,646	(4,337)
Total assets	<u>\$ 61,955,328</u>	<u>\$ 51,317,791</u>	<u>\$ 10,637,537</u>
<b>LIABILITIES</b>			
Loss and loss adjustment expense	\$ 32,170,781	\$ 25,827,759	\$ 6,343,022
Other	10,106,155	7,566,899	2,539,256
Total Liabilities	<u>42,276,936</u>	<u>33,394,658</u>	<u>8,882,278</u>
<b>RETRO RETURN RESERVE</b>			
Designated catastrophic reserves	18,392,790	16,849,036	1,543,754
Invested in capital assets	1,436,679	415,543	1,021,136
Undesignated	(151,077)	658,554	(809,631)
Total retro return reserve	<u>19,678,392</u>	<u>17,923,133</u>	<u>1,755,259</u>
Total liabilities and retro return reserve	<u>\$ 61,955,328</u>	<u>\$ 51,317,791</u>	<u>\$ 10,637,537</u>

- MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. Effective July 1, 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM increased its overall membership by 14 members during 2005, compared to an 85 member increase during 2004. Total assets increased by \$10,637,537 in 2005 to \$61,955,328. The total increase in assets during 2004 was approximately \$10,400,000 which is comparable to the 2005 increase, even though significantly fewer members

were added during 2005. The members added during 2004 were added through out the year with 2005 being the first year for twelve months of contributions to be received from these members. This resulted in an increase in cash and investments due to the additional contributions from the new members. Also during 2005, receivables increased by \$1,017,946. The majority of this increase is due to an additional receivable of approximately \$960,000 being recorded from a previous excess liability insurance carrier. The total receivable from the excess liability carrier as of December 31, 2005 approximated \$2,366,000. Capital assets increased in 2005 due to MOPERM's purchase of an office condominium for approximately \$1,200,000 in the Howerton Center Condominium.

- Total liabilities increased by \$8,882,278 in 2005 to \$42,276,936. The increase in liabilities was primarily associated with an increase in loss and loss adjustment reserves for the liability line of business. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary. The majority of the increase in Other Liabilities is unearned member contribution. MOPERM has no long term debt.
- Retro Return Reserve for 2005 increased by net income of \$2,018,518 and decreased by refunds to members of \$263,259, resulting in a net increase of \$1,755,259. Since its inception, MOPERM has refunded over \$6.7 million of contributions to the participating members.

	2005	2004	Increase (Decrease)
<b>OPERATING REVENUES</b>			
Contributions	\$ 20,594,674	\$ 17,588,474	\$ 3,006,200
Investment income	1,761,567	1,524,028	237,539
Other income (expense)	(8,356)	12,951	(21,307)
Total operating revenues	22,347,885	19,125,453	3,222,432
<b>OPERATING EXPENSES</b>			
Loss and loss adjustment expense	15,802,629	13,779,248	2,023,381
Excess insurance premiums	990,355	712,488	277,867
General and administrative	2,796,814	2,616,855	179,959
Total operating expenses	19,589,798	17,108,591	2,481,207
Net operating income	2,758,087	2,016,862	741,225
Unrealized losses on investments	(739,569)	(433,682)	(305,887)
Net income	\$ 2,018,518	\$ 1,583,180	\$ 435,338

- Contributions earned for 2005 increased by \$3,006,200. Approximately \$2,200,000 of the increase was attributed to the liability line of business through contribution rate increases and increased membership. The remainder of the increase was due to contribution rate increases and increased membership in the property line of business.
- MOPERM has invested approximately \$54.5 million, primarily in U.S. Government Agency Securities with final maturities of seven years or less with a one time call. Investment income consists of interest income, amortization of premium and discounts on bonds, and realized gains and losses on securities. Investment income for 2005 increased by \$237,539 due to an increase in total investments held by MOPERM. Because of the changes in interest rates in the investment market, MOPERM experienced an unrealized loss on investments during both 2005 and 2004.

- Excess insurance premiums increased by \$277,867 in 2005. In 2005 and 2004, MOPERM experienced growth in the property line of business. The premium for excess insurance for property increases as new members are written.
- General and administrative expenses approximated 14% and 15% of total contributions earned for 2005 and 2004, respectively. These expenses increased by \$179,959 in 2005. The majority of this increase was due to increased agents' commission expense of \$231,058 and service fees with Arthur J. Gallagher of \$49,952, offset by decreases in many of the other cost centers for 2005.

## **FINANCIAL SUMMARY**

In 2005, MOPERM experienced additional growth, adding 14 new members and contribution revenue of over \$3 million. MOPERM had a total of 899 contributors as of December 31, 2005. The continuous growth in contribution revenue is attributed to several factors. MOPERM added several large members during 2005. As well as during 2004, 85 new members were added with the current year being the first full year for these members to make contributions. Contribution rates were also increased for both property and liability coverages. The majority of the revenue increase is from liability contributions; however, the property program continues to grow.

Net income increased by \$435,338 even though MOPERM had a \$3 million increase in contributions. This is due primarily to the increase in reserves for claim developments related to prior years. Retro return reserves increased by \$1,755,259 (\$2,018,518 net income less \$263,259 refunds to members) in 2005. MOPERM had an undesignated retro return deficit balance at December 31, 2005, which is primarily due to the increase in invested capital assets of approximately \$1 million. Overall, the financial position of MOPERM has remained stable during 2005 in comparison to 2004.

## **FINANCIAL STATEMENTS AND RELATED FOOTNOTES**



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## BALANCE SHEETS

**DECEMBER 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,927,235	\$ 4,073,972
Investments	54,562,619	44,813,090
Deposits and accounts receivable other than contributions	2,408,158	1,494,141
Accrued interest receivable	559,769	499,063
Contributions in the course of collection	59,559	16,336
Prepaid expenses	1,309	5,646
Capital assets (net of accumulated depreciation of \$1,121,030 in 2005 and \$979,935 in 2004)	<u>1,436,679</u>	<u>415,543</u>
Total assets	<u>\$ 61,955,328</u>	<u>\$ 51,317,791</u>
<b>Liabilities and Retro Return Reserve</b>		
<b>Liabilities:</b>		
Loss and loss adjustment expense reserves	\$ 32,170,781	\$ 25,827,759
Advance contributions	9,752,704	6,989,368
Retro return reserve refunds payable	263,376	424,926
Accounts payable and accrued expenses	<u>90,075</u>	<u>152,605</u>
Total liabilities	<u>42,276,936</u>	<u>33,394,658</u>
<b>Retro return reserve (unrestricted):</b>		
Designated catastrophic reserves	18,392,790	16,849,036
Invested in capital assets	1,436,679	415,543
Undesignated	<u>(151,077)</u>	<u>658,554</u>
Total retro return reserve (unrestricted)	<u>19,678,392</u>	<u>17,923,133</u>
Total liabilities and retro return reserve	<u>\$ 61,955,328</u>	<u>\$ 51,317,791</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
STATEMENTS OF OPERATIONS AND CHANGES  
IN RETRO RETURN RESERVE**

**FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Revenues:		
Contributions	\$ 20,594,674	\$ 17,588,474
Investment income	1,761,567	1,524,028
Other income (expense)	<u>(8,356)</u>	<u>12,951</u>
Total operating revenues	<u>22,347,885</u>	<u>19,125,453</u>
Expenses:		
Loss and loss adjustment expenses	15,802,629	13,779,248
Excess insurance premiums	990,355	712,488
General and administrative	<u>2,796,814</u>	<u>2,616,855</u>
Total operating expenses	<u>19,589,798</u>	<u>17,108,591</u>
Net operating income	2,758,087	2,016,862
Unrealized losses on investments	<u>(739,569)</u>	<u>(433,682)</u>
Net income	2,018,518	1,583,180
Retro return reserve, beginning of year	17,923,133	16,764,792
Refunds to members, net of refunds returned	<u>(263,259)</u>	<u>(424,839)</u>
Retro return reserve, end of year	<u>\$ 19,678,392</u>	<u>\$ 17,923,133</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004**

	2005	2004
Cash flows from operating activities:		
Contributions collected	\$ 23,314,787	\$ 18,990,488
Loss and loss adjustment expenses paid	(10,373,624)	(7,203,830)
Payments to suppliers and excess insurer	(3,177,176)	(2,570,499)
Payments to employees	(454,417)	(465,725)
Investment income received	2,037,746	1,458,756
Other income (loss)	274	12,951
Net cash provided by operating activities	<u>11,347,590</u>	<u>10,222,141</u>
Cash flows used in non-capital financing activities:		
Refunds paid to members	<u>(424,808)</u>	<u>(539,408)</u>
Cash flows used in capital and related financing activities:		
Purchases of capital assets	<u>(1,243,535)</u>	<u>(40,268)</u>
Cash flows from investing activities:		
Proceeds from matured investments	20,436,918	23,859,750
Investments purchased	<u>(31,262,902)</u>	<u>(32,920,109)</u>
Net cash used in investing activities	<u>(10,825,984)</u>	<u>(9,060,359)</u>
Change in cash and cash equivalents	(1,146,737)	582,106
Cash and cash equivalents, beginning of year	<u>4,073,972</u>	<u>3,491,866</u>
Cash and cash equivalents, end of year	<u>\$ 2,927,235</u>	<u>\$ 4,073,972</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	<u>\$ 2,018,518</u>	<u>\$ 1,583,180</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	213,769	203,860
Realized losses on capital assets	8,629	-
Accretion of discounts and amortization of premiums, net	36,858	46,106
Realized losses on investments	300,028	56,167
Unrealized losses on investments	739,569	433,682
Changes in certain assets and liabilities:		
Increase in deposits and accounts receivable other than contributions	(914,017)	(1,426,235)
Increase in accrued interest receivable	(60,706)	(167,547)
Decrease (increase) in contributions in course of collection	(43,223)	4,400
Decrease (increase) in prepaid expenses	4,337	94,905
Increase in loss and loss adjustment expense reserves	6,343,022	8,001,653
Increase in advance contributions	2,763,336	1,397,614
(Decrease) increase in accounts payable and accrued expenses	<u>(62,530)</u>	<u>(5,644)</u>
Net adjustments	<u>9,329,072</u>	<u>8,638,961</u>
Net cash provided by operating activities	<u>\$ 11,347,590</u>	<u>\$ 10,222,141</u>

The accompanying notes are an integral part of these financial statements.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### 1. Reporting Entity

The Missouri Public Entity Risk Management Fund ("MOPERM") is a body corporate and politic created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for appointing some of the members of the Board of Trustees, the State's accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. The property coverage underwriting is being administered through Arthur J. Gallagher. MOPERM had a total of 899 and 887 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2005 and 2004, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

### 2. Basis of Accounting and Summary of Significant Accounting Policies

#### Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred. MOPERM applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict the Governmental Accounting Standards Board (GASB) pronouncements.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and overnight repurchase agreements. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution's trust department or agent in MOPERM's name. The carrying amounts reported in the balance sheets approximate the fair value of these instruments.

#### Investments

MOPERM reports investments at fair value, with the changes in fair value reported in the Statements of Operations and Changes in Retro Return Reserve. The estimated fair value of fixed maturity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

#### **Capital Assets**

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	<b>Depreciable Life</b>
Automobiles	3 years
Equipment and leasehold improvements	5 years
Furniture and fixtures and building improvements	10 years
Building	40 years

#### **Contributions**

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are calculated based on actuarial projections to produce sufficient funds to pay losses and expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM.

#### **Retro Return Reserve Refunds**

If collected contributions exceed total paid claims, claim expenses and operating expense in any given year, the Board of Trustees may declare a refund of the excess be made to participants who were members of MOPERM during the policy year for which a refund was declared. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

#### **Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### *NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)*

unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

#### **Designated Catastrophic Reserves**

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balance at December 31, 2005 is equivalent to 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments would be made to applicable members for the policy year the losses occurred. However, if after twenty years the funds have not been expended for catastrophic losses, the Board of Trustees may declare a refund to participants who were members of MOPERM during the policy year for which a refund was declared.

#### **Operating and Non-operating Income and Expenses**

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

#### **Income Taxes**

The Internal Revenue Service ruled that MOPERM is exempt from federal income tax under Section 115 of the Internal Revenue Code.

#### **Management's Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### 3. Deposits and Investments

#### Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, MOPERM's deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of December 31, 2005 and 2004 no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in MOPERM's name.

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2005 and 2004, the carrying amount of deposits at the financial institutions was \$(302,090) and \$(192,655), the bank balance was \$0 and \$9,548, respectively. Of the bank balance, \$100,000 was covered by federal depository insurance. At December 31, 2005 and 2004, an additional \$3,229,325 and \$4,266,627 was held in overnight repurchase agreements with a book value of \$3,229,325 and \$4,266,627. The repurchase agreements were collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. The bank overdrafts of \$302,090 and \$192,655 at December 31, 2005 and 2004, respectively, are offset by the repurchase agreements as discussed above.

#### Investment Policies

MOPERM's investment policy allows investments in: time deposits with maturity of twenty four months or less, U.S. Treasury securities and U.S. mortgage backed securities with final maturities of seven years or less, U.S. Government agency securities with final maturities of seven years or less, collateralized mortgage obligations that have a weighted average life not to exceed five years and pass the FFIEC High Risk Stress Test, commercial paper that may not exceed 180 days to maturity and repurchase agreements.

#### Investment Summary:

The following table presents the summary of MOPERM'S investments by type at December 31, 2005 and 2004:

	2005	2004
U.S. Agencies	\$ 52,130,696	\$ 44,813,090
U.S. Government Guaranteed Mortgages	1,695,594	-
Collateralized Mortgage Obligations	736,329	-
	<u>\$ 54,562,619</u>	<u>\$ 44,813,090</u>

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### *NOTE 3 – Continued (Deposits and Investments)*

#### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. MOPERM's investment guidelines require diversified portfolios with no single issue being greater than 5% of the portfolio, except for obligations of the U.S. government or its agencies. As of December 31, 2005 and 2004, no single issue exceeds 5% of the portfolio, excluding U.S. government securities.

#### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOPERM. At December 31, 2005 and 2004, all investments are guaranteed by the U.S. Government.

#### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

#### **Foreign Currency Risk**

MOPERM held no foreign investments or currency as of December 31, 2005 and 2004.



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

### 4. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

Category	Balance at December 31, 2004	Additions	Deductions/ Transfers	Balance at December 31, 2005
Building and building improvements	\$ -	\$ 1,159,491	\$ -	\$ 1,159,491
Equipment	47,312	304	-	47,616
Furniture and fixtures	65,679	55,526	35,415	85,790
Computer equipment and software	1,140,376	41,371	31,565	1,150,182
Automobiles	49,630	-	-	49,630
Leasehold improvements	14,323	-	14,323	-
Intangible	65,000	-	-	65,000
Work in progress	13,158	-	13,158	-
Total capital assets	1,395,478	1,256,692	94,461	2,557,709
Less accumulated depreciation	979,935	213,769	72,674	1,121,030
Capital assets, net	\$ 415,543	\$ 1,042,923	\$ 21,787	\$ 1,436,679

Capital asset activity for the year ended December 31, 2004 was as follows:

Category	Balance at December 31, 2003	Additions	Deductions/ Transfers	Balance at December 31, 2004
Equipment	\$ 50,652	\$ 979	\$ 4,319	\$ 47,312
Furniture and fixtures	65,327	352	-	65,679
Computer equipment and software	1,118,046	25,779	3,449	1,140,376
Automobiles	49,630	-	-	49,630
Leasehold improvements	14,323	-	-	14,323
Intangible	65,000	-	-	65,000
Work in progress	-	13,158	-	13,158
Total capital assets	1,362,978	40,268	7,768	1,395,478
Less accumulated depreciation	783,843	203,860	7,768	979,935
Capital assets, net	\$ 579,135	\$ (163,592)	\$ -	\$ 415,543

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

### 5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	<u>2005</u>	<u>2004</u>
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$1,683,556 in 2005 and \$69,693 in 2004	\$ 25,827,759	\$ 17,826,106
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	14,341,716	12,464,684
Provision for insured events – prior years	<u>1,460,913</u>	<u>1,314,564</u>
Total incurred loss and loss adjustment expenses	<u>15,802,629</u>	<u>13,779,248</u>
Payments:		
Loss and loss adjustment expenses attributable to insured events – current year	2,360,924	3,230,506
Loss and loss adjustment expenses attributable to insured events – prior years	<u>7,098,683</u>	<u>2,547,089</u>
Total payments	<u>9,459,607</u>	<u>5,777,595</u>
Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$2,650,844 in 2005 and \$1,683,556 in 2004	<u>\$ 32,170,781</u>	<u>\$ 25,827,759</u>

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

### 6. General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri for all costs of administration, including salary costs of \$456,594 for 2005 and \$466,752 for 2004 and pension costs of \$52,154 for 2005 and \$45,131 for 2004. All property business is required to be written through agents and liability business written through agents has increased. Agent commission expense totaled \$1,538,343 and \$1,307,285 for the years ended December 31, 2005 and 2004, respectively. Loss control services, provided by an outside consultant, approximated \$92,300 and \$89,000 for the years ended December 31, 2005 and 2004, respectively.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

### 7. Operating Leases

MOPERM is obligated under a long-term, noncancelable operating lease agreement for office equipment. Minimum annual rental commitments under the non-cancelable operating lease are as follows:

2006	\$	3,136
2007		3,136
2008		2,352
	\$	<u>8,624</u>

MOPERM was released, without penalty from its long-term, noncancelable lease agreement for office space effective July 1, 2005.

Rental expense on operating leases totaled \$25,295 and \$40,603 for the years ended December 31, 2005 and 2004, respectively.

### 8. Retro Return Reserve Refunds

During 2005 and 2004, the Board of Trustees of MOPERM declared retro return reserve refunds of \$263,376 and \$424,926, respectively. As of December 31, 2005, cumulative retro return reserve refunds were as follows:

Policy Year	Refunds Declared and Paid Prior to 2005	Refunds Declared and Accrued During 2005	Total Refunds Declared	Percentage of Contributions Refunded
1987	\$ 1,358,351	\$ 32,731	\$ 1,391,082	85%
1988	2,019,743	54,588	2,074,331	76%
1989	519,031	-	519,031	23%
1990	933,499	-	933,499	45%
1992	585,188	58,519	643,707	22%
1994	155,373	-	155,373	3%
1995	1,057,837	117,538	1,175,375	20%
1996	129,080	-	129,080	2%
	<u>\$ 6,758,102</u>	<u>\$ 263,376</u>	<u>\$ 7,021,478</u>	

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### 9. Excess Insurance

MOPERM has maintained various excess insurance coverage with outside insurance carriers for the liability program. From January 1, 1989 through December 31, 1995, coverage was provided on a claims made basis. From December 31, 1995 through July 7, 2002, coverage was provided on an occurrence basis.

During the period from December 31, 1995 through July 7, 2002, the excess liability policy provided coverage of \$100,000 for each occurrence or wrongful act in excess of a \$900,000 self-insured retention limit and an aggregate limit of \$3,000,000 based on a minimum underlying self-insured retention of \$6,000,000.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability.

Effective July 1, 2003, excess insurance for the property program was purchased with outside carriers.

The property excess policy, with Allianz Insurance Company, provides coverage of \$200,000,000 for each occurrence. MOPERM's 2005 retention per occurrence was \$50,000 with no annual aggregate. During 2004, MOPERM's retention per occurrence was \$25,000 with a \$150,000 annual aggregate. The boiler and machinery excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM's retention was \$250,000 annually with a \$10,000 trailer deductible for 2005 and 2004. The crime excess policy, with Travelers Casualty and Surety of America, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate for both 2005 and 2004.

### 10. Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 and 2004

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### 11. Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of such litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

During 2004, MOPERM received a court judgment against a prior excess liability insurance carrier regarding coverage on prior years' claims. Based upon the court judgment, MOPERM has recorded an excess insurance recoverable and related accrued interest totaling \$2,484,230 and \$1,524,043 as of December 31, 2005 and 2004, respectively. \$2,365,677 and \$1,405,490 of this receivable are included in accounts receivable on the December 31, 2005 and 2004, balance sheets. The balance of the receivable continues to increase as covered claims are settled for these policy years. Related interest of \$118,553 is reflected in accrued interest receivable on the balance sheets as of December 31, 2005 and 2004. Management has made the conservative decision to not accrue additional interest on this litigated receivable.

## **SUPPLEMENTAL SCHEDULE**

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
SUPPLEMENTAL SCHEDULE OF 1995-2004  
LOSS DEVELOPMENT INFORMATION**

**DECEMBER 31, 2005**

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The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2005. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's cumulative contribution refunds for each policy year.
- (4) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (5) The cumulative net amounts paid as of the end of successive years for each policy year.
- (6) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (7) Each policy year's incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (8) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 4) and shows whether this latest estimate of loss cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT

## SUPPLEMENTAL SCHEDULE OF 1995-2004 LOSS DEVELOPMENT INFORMATION, CONTINUED DECEMBER 31, 2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	\$ 7,540,860	\$ 8,020,553	\$ 8,314,302	\$ 8,160,933	\$ 8,900,923	\$ 10,320,770	\$ 11,746,288	\$ 13,758,081	\$ 19,112,502	\$ 22,356,241
Ceded	(102,000)	(102,000)	(102,000)	(70,000)	(70,000)	(70,000)	(36,233)	(58,521)	(712,488)	(990,355)
Net earned	7,438,860	7,918,553	8,212,302	8,090,933	8,830,923	10,250,770	11,710,055	13,699,560	18,400,014	21,365,886
(2) Unallocated expenses	764,003	983,811	1,040,417	994,573	1,160,371	1,332,197	1,552,038	1,795,366	2,616,855	2,796,814
Policy year ended:										
(3) Contribution refunds, cumulative	129,080	-	-	-	-	-	-	-	-	-
(4) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,742,751	14,344,347
Ceded	-	-	-	-	-	-	-	-	(278,067)	(2,631)
Net incurred	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716
(5) Net paid losses (cumulative) as of:										
End of policy year	1,113,086	1,199,097	1,397,016	1,493,067	1,648,659	1,745,939	2,600,699	2,186,599	2,226,701	2,360,924
One year later	1,745,076	2,086,739	1,968,625	2,226,225	2,629,100	2,219,176	3,316,104	2,921,068	4,105,287	-
Two years later	3,176,650	2,874,212	3,187,766	3,369,015	3,756,516	3,040,750	4,736,877	4,380,519	-	-
Three years later	4,113,699	4,247,177	5,020,185	3,951,688	4,402,095	3,900,515	7,686,502	-	-	-
Four years later	4,408,518	4,714,633	5,868,584	4,554,198	4,782,322	4,508,481	-	-	-	-
Five years later	5,146,833	4,815,733	6,429,313	5,612,844	4,924,726	-	-	-	-	-
Six years later	5,282,994	4,837,824	5,832,792	5,675,870	-	-	-	-	-	-
Seven years later	5,327,419	4,694,548	5,829,850	-	-	-	-	-	-	-
Eight years later	5,104,332	4,694,548	-	-	-	-	-	-	-	-
Nine years later	5,104,332	-	-	-	-	-	-	-	-	-
(6) Re-estimated ceded loss and loss adjustment expense	-	-	-	-	-	-	-	-	-	-
(7) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716
One year later	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	7,727,237	9,259,123	12,439,325	-
Two years later	4,840,507	5,074,954	5,189,809	5,126,045	5,448,430	6,515,098	9,272,684	9,259,123	-	-
Three years later	4,840,507	5,074,954	5,950,981	5,126,045	5,448,430	6,515,098	10,921,161	-	-	-
Four years later	5,227,747	5,074,954	6,227,771	5,467,782	5,448,430	6,515,098	-	-	-	-
Five years later	5,421,368	5,142,620	6,435,363	6,151,254	5,448,430	-	-	-	-	-
Six years later	5,421,368	5,142,620	6,020,178	6,151,254	-	-	-	-	-	-
Seven years later	5,421,368	5,007,288	6,020,178	-	-	-	-	-	-	-
Eight years later	5,195,477	5,142,620	-	-	-	-	-	-	-	-
Nine years later	5,195,477	-	-	-	-	-	-	-	-	-
(8) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	354,970	67,666	830,369	1,025,209	-	-	3,193,924	1,234	(25,359)	-